

Out-of-court dispute resolution policy in EU electronic commerce

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The idea of common electronic market in European Union is frequent question in many aspects. From the legal point of view it is necessary to define unfair competition in this field. It includes domain name grabbing, cybersquatting, spamming and other ways of disrupting competitor's activities. Legal regulation of e-commerce is developing very slowly but we have already achieved some victories. Directive on certain legal aspects of information society, in particular electronic commerce, in Internal Market (2000) was followed by the regulation of .eu domain names (2002, 2004) and others. This paper is focusing on out-of-court dispute resolution policy in EU electronic commerce, especially includes the way of so called Alternative Dispute Resolution (ADR) in .eu domain name cases. It presents results of research of more then 200 ADR decisions made by The Czech Arbitration Court which is the only arbitration board within European Union authorized to solve .eu domain name disputes and it is able to administer ADR in all official European Union languages.

Keywords: Alternative dispute resolution, bad faith, complainant, Czech Arbitration Court, cybersquatting, domain name, electronic market, legitimate interest, unfair competition

JEL-code: K41 - Litigation Process

1. Unfair competition in electronic market of EU

We live in the “age of technologies”, computers, Internet, electronic cards and other nowadays conveniences are influencing the quality of our everyday life. This situation demands also new attitudes towards definitions of typically legal terminology. One of this is unfair competition.

Unfair competition in traditional way of understanding includes trademark infringement, false advertising, bait and switch selling tactics, unauthorized substitution of one brand of goods for another, use of confidential information by former employee to solicit customers, theft of trade secrets, trade libel, false representation of products or services, etc. Of course, all of these practices can be acted within the field of electronic market, but there are also some new types of practices, connected mostly with Internet, which we can call as unfair. These practices involve for example domain name grabbing, cybersquatting, typosquatting, spamming and others.

Most of legal regulation within the field of unfair competition in EU law is intended to protect especially consumers from deceptive trade practices. For example, each member state of EU must regulate unfair business practices in accordance with Directive 2005/29/EC The Unfair Commercial Practices Directive. It tends to achieve maximum harmonization of business-to-consumer fair trading law. Of course there are many other legal regulations, e.g. Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts, Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts, Council Directive 84/450/EC of 10 September 1984 concerning misleading and comparative advertising and many others.

More specific for Internet users (electronic commerce participants), is Directive 2000/31/ EC of the European Parliament and of the Council of 8 June 2000, on certain legal aspects of information society, in particular electronic commerce, in Internal Market (known as E-commerce directive). This directive has the purpose of ensuring a high level of community legal integration in order to establish a real area without internal borders for information society services. From the view of unfair competition, rules can be applied, when electronic communication is within the category of “commercial communications” (communication designed to promote goods, services or image of company etc.). In context of legal aspects of e-commerce, it is also very important to determine applicable law in international unfair competition cases. Article 3 of E-commerce directive contains the country-of-origin rule. This means that if an information society service provider complies with the laws of the member state where he is established, he is free to provide his services throughout the EU.

New legal definition in substantive law requires also new approaches to procedural dispute resolutions. It seems to be quite ineffective to use judicial way of dispute solution for many reasons - it is very time consuming, expensive, legally bounded with the member state national law, etc. On the other hand arbitration and other Alternative Dispute Resolutions (hereinafter ADR) have all the advantages against judicial - they are less time consuming, cheaper and free to apply other, then national or EC law (e.g. principles of equity).

Especially in electronic market, where subjects of disputes are at a distance, the way of out-of-court dispute settlement is much more comfortable way of solution. That's why E-commerce directive in article 17 at least establishes that member states shall ensure that, in the event of disagreement between an information society service provider and the recipient of the service, their legislation does not hamper use of out-of-court schemes, available under national law, for dispute settlement, including appropriate electronic means.

All the same, these legal rules are not comprehensive regulation for e-commerce, and main tasks stand on the shoulders of EU member states. Quite different is the approach to .eu domain names.

2. Common EU electronic identity

The EU experience with unfair behaving in the field of e-commerce, world best practices, where embodied into a regulation of domain names.

The term domain name can be defined as any alpha-numeric designation which is registered with some domain name registration authority as part of an electronic address on the Internet. Domain names are formed by hierarchical system of items on different level, which is called as Domain Name System (DNS). Domains on the top of the hierarchy are denoted as Top Level Domains (TLD) and they are presented at the end of domain name. There are two different groups of TLD, namely generic (gTLD) and country code domain names (ccTLD). Among generic domain names .com, .net, .int, .gov, .mil, .org, .edu, are presented. Country code domain names are reserved for states, e.g. .cz for Czech Republic, .hu for Hungary etc. Domain names front of TLD subdomains (second level domains) and this is what we call „domain name“, in legal terminology. It is possible to extend domain name also to the third level, forth etc. Administration of domain names is vested in different associations with different jurisdiction (e.g. ICANN, EURid, CZ.NIC, etc.)

Discussion through out the EU about its own electronic identity has ended in introduction of new country code top level domain .eu. Registration of first domain names was launched on December the 7, 2005 and proceeded two phases of so-called Sunrise Period. Within this period, holders of prior rights, such as national and community trademarks, geographical indications or designation of origin, company names and also family names, distinctive titles of protected literary and artistic work, could have preserved their rights against “cybersquatting” and other ways of violating. On April the 7, 2006 free Landrush period has begun and since that time registration is available for other

subjects with the place of business or resident within the territory of European Union.

2.1. Codification

Throughout the world, there is only one national normative legal act concerning with domain names. It is Trademark Cyberpiracy Prevention Act, so called Anti-cybersquatting Consumer Protection Act, adopted by United States of America (1999).

Generally are domain names in the world defined by „soft law“. It means that instruments of regulation have no legally binding force. This matches philosophy of autoregulation of Internet (no single state or other power shall rule the Internet). Domain name administrators (registrars) themselves define soft law regulation. Basic rule which is defined by all registrars is “first come first served”, i.e. time priority of the application. Considering fact that no national legal rules exist, it is registrar, who sets the rules for the process of registration of domain name. Exclusive position among other registrars has Internet Corporation for Assigned Names and Numbers (ICANN). For the purpose of this paper, the most important rule adopted by ICANN is Uniform Dispute Resolution Policy (UDRP) which had essentially influenced legal regulation in EU.

Although the fact, that domain names are not common object of legal regulation in the world, institutions of EU have adopted two legal regulations of .eu domain names. Legal basis for introduction of .eu domain is comprised in Regulation No. 733/2002/EC of the European Parliament and of the Council of 22 April 2002 on the implementation of the .eu Top Level Domain. Further legal administration is defined by Regulation No. 874/2004/EC of 28 April 2004 laying down public policy rules concerning the implementation and functions of the .eu Top Level Domain and principles governing registration.

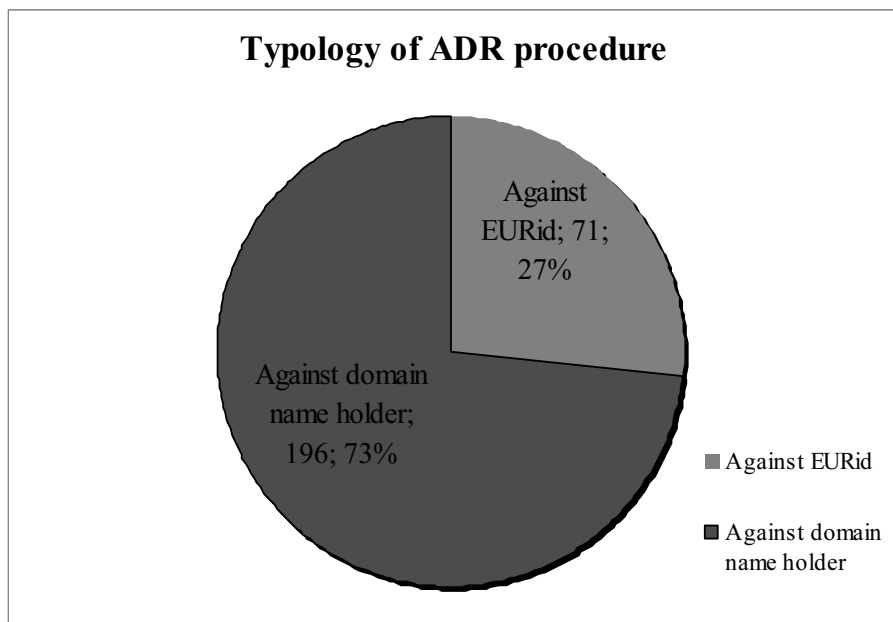
Registrar for .eu domains is association The European Registry of Internet Domain Names (EURid). Contrary to the national legal orders of EU, community law, by the Regulation no. 874/2004/EC, establishes legal rules of registration and the way of resolving possible disputes. Dispute resolution is defined by articles 21 to 23 of the Regulation. There are two ways of resolving disputes, first one is the way of ADR and the second one is an ordinary judicial procedure held by the court system in the country. The sequence of these ways, first - alternative (extra-judicial) way and after this - judicial way, demonstrates the stress given by the European community to ADR. ADR is faster and cheaper than judicial way of resolving disputes and it is more similar to arbitration.

As the authority chosen for providing alternative procedure the Czech Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic was selected in the year of 2005. The Czech Arbitration Court (hereinafter CAC) is the only arbitration board within European Union authorized for resolving .eu domain name disputes and it is able to administer ADR in all official EU languages. Within ADR hundreds of disputes have already been solved (e.g. more then 250 in the year of 2007).

ADR decisions accomplish gaps in legal regulation of .eu domain names. Next a few parts of the paper concerning with results of research made by the author of this article with focusing on creating “case law” from decisions issued in the year 2007. This year is the first complete year of decision-making, and researches in other years can take it up.

2.2. Typology of ADR procedure

Generally there are two types of ADR procedures. The first deals with disputes between complainant and EURid (disputes against registrar) and the second type are ADR procedures between complainant and domain name holder (e.g. cybersquatter).



Graph 1
Typology of ADR procedure

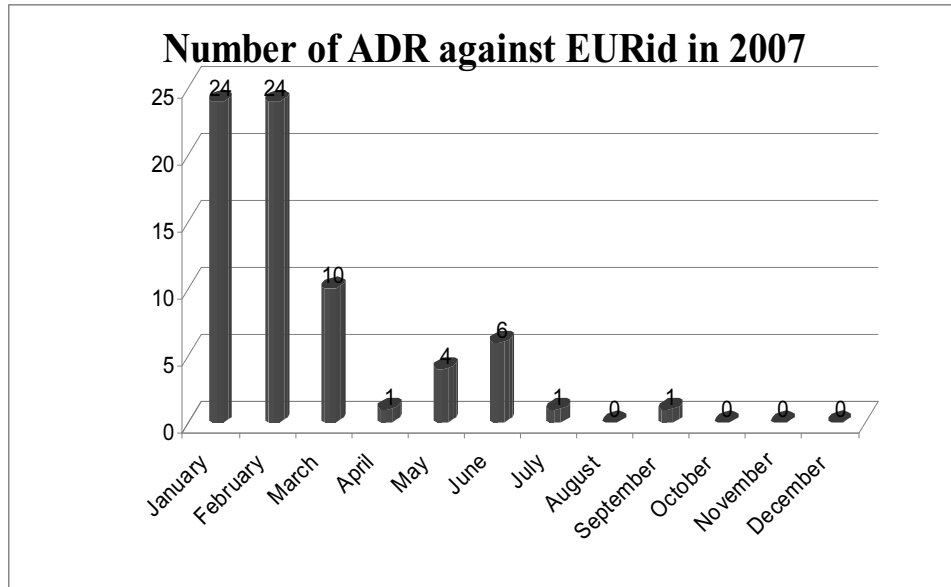
As a whole, 267 decisions were issued during the year 2007. In 71 cases (27 %), this procedure carried out against EURid. These cases are part of appealing procedure against EURid decisions issued during Sunrise period. More decisions were issued against domain name holder - it is 196 cases (73 %).

ADR procedure against EURid is based on the Article 22/1(b) of Regulation No. 874/2004/EC. Complainant can initialize procedure if decision taken by EURid conflicts with either Regulation No. 874/2004/EC (hereinafter Regulation) or Regulation No. 733/2002/EC.

Under the Article 22/1(a) of Regulation, an ADR procedure may be initiated by any party where the registration is speculative or abusive within the meaning of Article 21. Parties of such procedure are complainant and respondent. Under Article 21 of Regulation, the complainant must prove that the challenged domain name is identical or confusingly similar to a name in respect of which a right is recognized or established by national and/or community law and that either the domain name has been registered by its holder without rights or legitimate interests in the name or the domain name has been registered or is being used in bad faith. Just for comparison, cybersquatting firstly legally defined by the Anticybersquatting Consumer Protection Act is defined as the *registration, trafficking in, or use of a domain name that is identical or confusingly similar to a trademark or service mark of another that is distinctive at the time of the registration of the domain name, or dilutive of a famous trademark or service mark of another that is famous at the time of the registration of the domain name, without regard to the goods or services of the parties, with the bad-faith intent to profit from the goodwill of an other's mark.*

2.2.1. ADR procedures against EURid

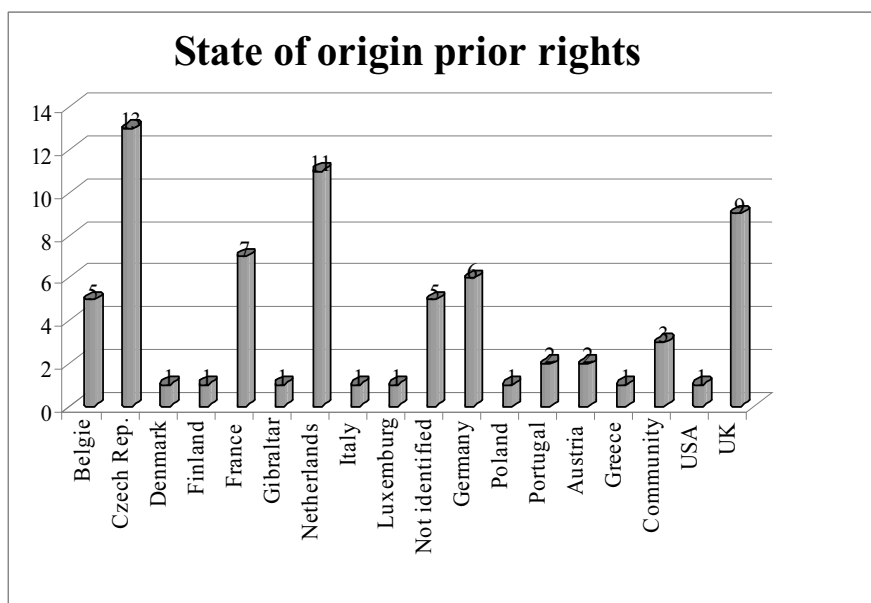
From the research resulted, that all disputes against EURid came from Sunrise period. It can be presumed, that the number of disputes will be decreasing - further from Sunrise period, the smaller number of disputes resolved. This presumption was confirmed by following graph 2.



Graph 2.
Number of ADR against EURid in 2007

There is no expectation that number of disputes against the EURid will be rapidly growing in following years.

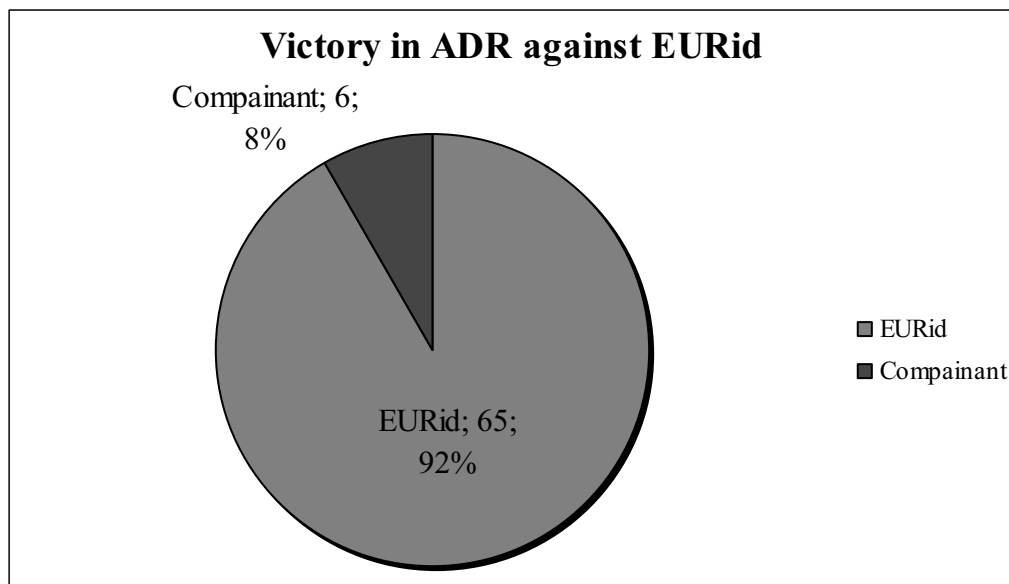
Complaint against EURid must be based on protected rights by national or EU law (e.g. national trade mark or Community Trademark). Following graph 3 demonstrates which national legal orders were involved.



Graph 3
State of origin prior rights

In 13 cases the complaint was based on legal order of Czech Republic. All the following cases CAC No. 4281 DOTACE, CAC No. 4283 HOTELY, CAC No. 4284 HRY, CAC No. 4286 DOVOLENA, CAC No. 4287 UBYTOVANI, CAC No. 4288 MAPY, CAC No. 4289 AKCIE, CAC No. 4290 ZAKONY, CAC No. 4292 ZAJEZDY, CAC No. 4293 KURZY were submitted by the same subject. According the author's opinion, all applications in Sunrise period in these domain names, were submitted intentionally with the purpose of gaining domain name without real right or legitimate interest on it. Shortly before the moment, when registration in Sunrise period started, all these names had been in hurry registered for the purpose of having right on name of employee organization which has nothing to do with the business activities of complainant. All these cases won Eurid. And not only them, as it is clear from following information.

Activity of EURid is run by specialists, who know the legal regulation of .eu domain names, so we can expect, there will not be often situation of breaching law, of whom the article 22/1(b) of Regulation talks about. So we can presume, there will be much more cases won by EURid. Former presumption was acknowledged by following graph 4.



Graph 4
Victory in ADR against EURid

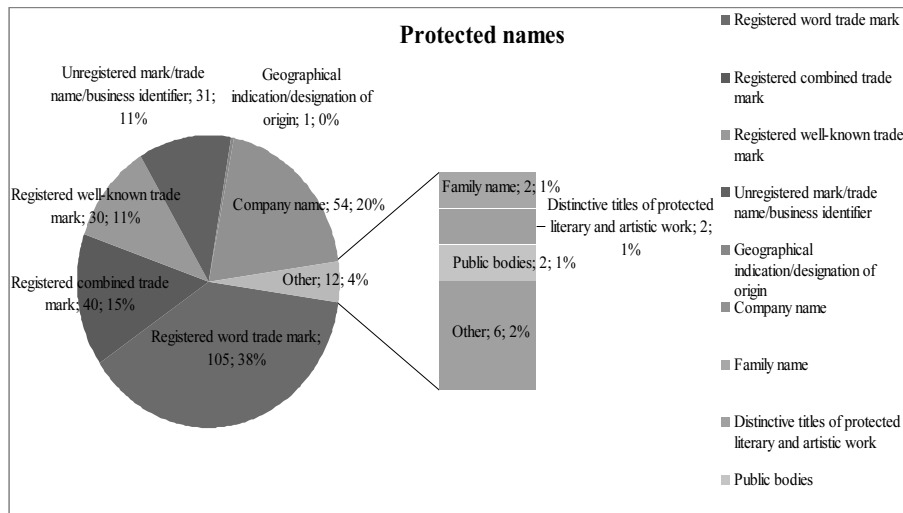
Such results can be reasoned by following facts. Complainants don't usually have enough knowledge about proceeding and do not submit corresponding proves to their statements. On the other hand there are no many mistakes done by EURid specialist who dispose applications in Sunrise period.

2.2.2. ADR procedures against domain name holder

As said above, Article 21 of Regulation states, that the complainant must prove that the challenged domain name is identical or confusingly similar to a name in respect of which a right is recognized or established by national and/or community law and that either the domain name has been registered by its holder without rights or legitimate interests in the name or the domain name has been registered or is being used in bad faith.

The claim of complainant stands on some of, so called, prior rights. This includes registered national and community trademarks, geographical indications or designations of origin, and, in as far as they are protected under national law in the Member-State where they are held: unregistered trademarks, trade names, business identifiers, company names, family names, and distinctive titles of protected literary and artistic works.

The research resulted in the fact, that claims are mainly based on national trademarks. This is evident from following graph 5.



Graph 5
Protected names

The prior right based on protection of trademarks (including well know trademarks) have used 64 % of complains. This result corresponds to the prior purpose of regulation domain name by legal instruments (see UDRP and Anticybersquatting Act).

The first issue that must be resolved by the panel is the problem of identity or confusing similarity of disputed domain name and a name in respect of which a right is recognized or established by national or Community law. The test of confusing similarity under the Regulation is confined to a comparison of the disputed domain name and protected name (e.g. trademark) alone, independent of the products for which the domain name is used or other marketing and use factors, usually considered in trademark infringement cases. Furthermore, the assumption of confusing similarity between prior right and domain name is not refuted by the fact that Complainant's trademark contains an additional figurative element which can not be reproduced in a domain name (e.g. CAC No. 2438 ASKS, CAC No. 3048 BOSCOHOTELS).

Especially in the problem of identity or similarity, it is very import that ADR "case law" has covered gaps in legal regulation. For example common access to

the part of domain name “.eu”. It is well-established that the specific top level of a domain name “.eu” in these cases does not affect the domain name for the purpose of determining whether it is identical or confusingly similar pursuant to Article 21/1 of the Regulation (e.g. CAC No. 00227 KUNST, CAC No. 387 GNC, CAC No. 596 RESTURANTS, CAC No. 227 KUNST, CAC No. 1584 KSB, CAC No. 2438 ASKS, CAC No. 283 LASTMINUTE, CAC No. 1693 GASTROJOBS etc.).

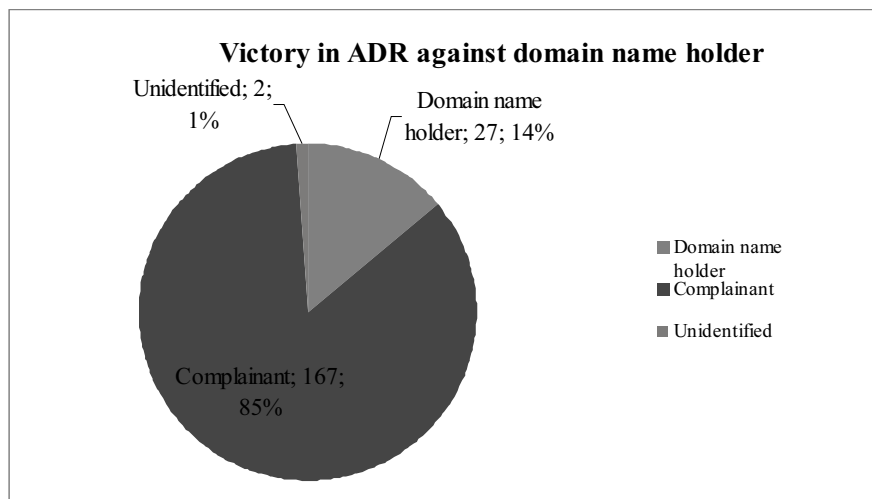
Further finding of the panel considers domain holder’s rights and legitimate interest. Regulation sets out three ways whereby the domain name holder (respondent) may demonstrate rights or legitimate interest. Firstly, respondent may demonstrate use of the domain name or a name corresponding to the domain name in connection with an offering of goods or services or demonstrable preparations to do so, secondly, holder of the domain name has been commonly known by the domain name and finally, legitimate and non-commercial or fair use without intent to mislead customers or harm the reputation of a trade mark. The above factors are not exhaustive. In practice there can be other factors evidencing the existence of rights or legitimate interests. In this context, it is important to examine the respondent’s purpose in registering the disputed domain name.

In practice it is almost impossible for complainant to prove negative fact that respondent has no rights or legitimate interest. That’s why ADR “case law” introduced the principle, that complainant bears the burden of proof that an earlier right and the domain name are identical or confusingly similar and that the domain holder *prima facie* cannot claim a right or legitimate interest of its own in the domain name or that registration or use of the domain name is in bad faith. If the panel is satisfied by submitted evidences by complainant, panel will order the transfer of the domain name to the complainant. Otherwise complaint will be denied.

Alternatively to registration or use with no rights or legitimate interest, bad faith has to be proven. Bad faith may be demonstrated where circumstances indicate that the domain name was registered or acquired primarily for the purpose of selling, renting, or otherwise transferring the domain name to the holder of a name in respect of which a right is recognized or established by national and/or Community law or to a public body. In practice there are also other ways to prove bad faith, such as non use of the domain name, blocking the owner of a protected name, disrupting professional activities of the holder of the prior right, creating the likelihood of confusion, pattern of conduct, etc.

From the view of ADR results, there is completely different situation in cases against domain name holders to procedures against EURid. In 79% cases the winner was complainant. This result corresponds to results of ADR in the first

year of applying UDRP for gTLD in the year 2000, when in 86 % cases complainant succeeded.



Graph 6
Victory in ADR against domain name holder

3. Conclusions

Although electronic commerce and unfair competition in electronic market of EU is not completely defined by *acquis communautaire*, domain name .eu is regulated by secondary law. Regulation No. 733/2002/EC and Regulation No. 874/2004/EC are complex enough to define both the substantive law and procedural law. The way of alternative dispute resolution policy is preferred in domain names disputes compared to judicial procedure. Where legal regulation or “soft law” is not enough for any aspect, ADR “case law” has been formed.

General conclusions resulted from research can be formed in following:

- 1) Codification of “cybersquatting” defined by EC regulations has been strongly influenced by earlier regulation formed by ICANN in UDRP and USA in Anticybersquatting Act.
- 2) Results of ADR procedures against .eu domain name holder in the year 2007 (first whole year of deciding) are very similar to those under UDRP procedure with generic top level domains (.com, .net, .org etc.) in the year 2000 (also first whole year of deciding).

- 3) EC regulations protect mostly trademark owners against violating their rights by third parties.
- 4) ADR “case law” has formed some interesting conclusions, e.g. switch of burden of prove from complainant to respondent in so called *prima facie* cases.

EC practice in application of ADR on .eu domain names can also be considered as guidance, how to effectively integrate two different national legal systems in European Union – the anglo-saxon and the continental legal systems. Everyday day practice, i.e. case law created by Czech Arbitration Court effectively evolves legal regulation. Thanks to this, legal regulation doesn't need to be changed whenever new problem of applying arises from practice.

Summary

Rules of registration and using domain names are defined not only by state law, but also, and above all, by private rules formed by generic and country code top level domain administrators. Basic rule which is defined by all registrars is “first come first served”, i.e. time priority of the application. Considering fact that no national legal rules exist, it is registrar, who sets the rules for the process of registration of domain name. However in the territory of European Union there are two legal regulations of .eu domain names in effect. After introduction of .eu domain name it has become clear, that many disputes will arise from registering and using domain names. The way of alternative dispute resolution (ADR) seems to be very effective and fast way of resolving disputes. As the authority chosen for providing alternative procedure the Czech Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic was selected in the year of 2005. The Czech Arbitration Court is the only arbitration board within European Union authorized for resolving .eu domain name disputes and it is able to administer ADR in all official EU languages. Within ADR hundreds of disputes have already been solved (e.g. more than 250 in the year of 2007). Results of ADR in .eu domain name cases are similar to those held under Unified Dispute Resolution Policy Rules used especially for generic top level domains (.com, .org, .net, etc.). Moreover, case law of .eu domain names has covered gaps in legal regulation.

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- Regulation (EC) No. 874/2004 of 28 April 2004 laying down public policy rules concerning the implementation and functions of the .eu Top Level Domain and principles governing registration
- RFC 920 Specified original TLDs: .arpa, .com, .edu, .org, .gov, .mil and two-character country codes
- RFC 1591 Domain Name System Structure and Delegation
- RFC 2240 A legal basis for Domain Name Allocation

Internet web pages:

- <http://www.adr.eu/>
- <http://www.eurid.eu/>
- <http://www.icann.org/>
- <http://www.wipo.org/>